B2000-1

CHEMICAL

Financial Digest

Volume XXIX, Number 14 Monday, July 13, 1992

Analysis of Business Trends Plus Selected Financial Indicators

Premature Obituary

With the second half of the year now underway, once optimistic expectations of an acceleration of business activity have suddenly given way to an air of despondency. In recent weeks, policymakers and analysts alike have been buffeted by a sobering string of late spring economic statistics ranging from an easing of factory orders to a slippage of new and existing home sales to a plateauing of consumer confidence. However, the real clincher for the more pessimistic pundits was a hefty plunge in seasonally-adjusted payroll employment in June and a sharp upturn in the jobless rate, an unanticipated jolt which prompted the Federal Reserve to once again shove interest rates lower and ignited worries that the economy would stage a repeat performance of last year's latter half swoon. But while the business pace has softened since the first quarter, this recovery's obituary has yet to be written. The recent spate of downbeat economic news both exaggerates the degree of weakness and masks the positives which will keep the recovery on an admittedly slow track.

Not surprisingly, a windfall shift in sentiment accompanied the release of the June employment numbers. Whereas expectations abounded that payroll jobs would continue to expand at a modest pace, the Labor Department shattered this view with the news that nonfarm payrolls dropped by a seasonally-adjusted 117,000 persons in June, the largest one-month plunge this year. Job losses were reported to be widespread throughout the retailing, construction and manufacturing industries and, in a disturbing harbinger of a slower tempo of industrial activity, the length of the factory workweek shortened and overtime hours ebbed. What is more, at the same time that job growth was sputtering, the labor force was swelling. With an influx of recent school leavers looking for work, but with cost-conscious employers reluctant to take on new hires, the mix was in place for a spike in the jobless rate to an eight-year high of 7.8 percent.

The job picture painted by these numbers seemed too grim to be true—and it was. For lost amidst all the hoopla of "triple dips" and "nightmares" was the fact that the economy actually generated 457,000 payroll jobs in June, rather than shed 117,000. This divergence was the result of the seasonal adjustment of the "raw" payroll numbers; since the June employment gain was less than seasonally expected, the statistician's pencil erased entirely the good-sized increase in real jobs and transformed it into a fair-sized drop in so-called adjusted jobs. But since this is no typical year—with uncertainty rampant and employer cost-consciousness acute—it might be argued that faulty seasonal adjustment factors, and not systemic economic weakness, are providing an aberrant snapshot of the labor market. Since January, in fact, "real world" payroll jobs have expanded at a pace more than ten times faster than seasonally-adjusted payrolls, with employers adding better than 2.7 million people but only some 250,000 of these survived seasonal adjustment.

Automotive Assist

Against this backdrop, the outlook for consumer spending, and the rest of the economy, may be somewhat more sanguine than is commonly supposed. To be sure, household income growth has been modest for quite some time—largely suppressed by the flattening of interest income growth which has accompanied the nearly two dozen interest rate cuts initiated by the Federal Reserve over the past three years—and value-obsessed consumers continue to shy away from costly retailers. But discounters are generally posting solid sales gains (Financial Digest—June 29, 1992), a travel-related summer spending binge is just now getting underway and consumers have begun to return to automobile showrooms in droves. With the average age of the nation's automobile fleet standing at an all-time high, and most manufacturers offering buyer-friendly financing packages, replacement demand alone is beginning to shift into higher gear.

Stiffened by the soaring popularity of the Saturn nameplate—which earned top honors among domestic automobiles in the latest J.D. Power and Associates Customer Satisfaction Survey—and to some extent by so-called "fleet" sales, automobile and light truck sales ran at their fastest clip in 18 months during the final ten-day selling period of June, lending further credence to Detroit's belief that the long-

Economics Department 17/270

Copyright 1992 Chemical Banking Corporation 270 Park Avenue, New York, NY 10017

awaited auto recovery is finally underway. Although one ten-day selling period, or an entire month for that matter, does not necessarily provide a reliable guide to the future, automobile manufacturers apparently think so. The Big Three have scheduled a nearly 18 percent rise in auto and light truck output for the third quarter compared with year-earlier levels and the amount of idle time slated for existing assembly plants has been slashed appreciably.

If the upswing in automobile sales and output holds up, it will provide a solid assist to the economy in general, and take up some of the slack arising from a sluggish housing market in particular. For notwithstanding lower home prices in many areas and descending mortgage interest rates, housing—the other big motor of postwar recoveries—has yet to experience anything more than a subdued rebound. Although housing starts so far this year are running well ahead of last year's pace, several troubling signs put even these gains in jeopardy. Building permits have been easing in recent months, new home sales have been dropping for four straight months and existing home sales dipped in May. It wasn't supposed to be this way, since improved affordability alone was expected to spur the housing market. But besides such oft-cited culprits as job insecurity and changing

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/24/92)	142,902	- 1,525	- 47,909
New York City (7/1/92)	24,985	- 539	- 7,219
Commercial Paper (7/1/92)	541,802	- 3,533	- 2,615

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/24/92)	280,174	- 1,427	- 28,577
New York City (7/1/92)	48,985	+ 558	- 5,754

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/24/92)	995,683	- 12,163	- 43,666
New York City (7/1/92)	168,025	+ 7,920	- 3,481

Financial Markets

	Friday 7/10/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	3.27%	- .02	- 2.41
180-Day Bills†	3.35	- .09	- 2.55
Longest Bills†	3.58	- .10	- 2.63
Recent Issues:			
5s 6/30/94	4.33	- .20	
6⅛s 6/30/97	5.89	- .12	
7½s 5/15/02	6.91	- .01	
8s 11/15/21	7.63	–0–	
Municipals:			
Bond Buyer—20 Bond Index* (7/9/92)	6.17%	- .21	- .90
Blue List Total ($ Million)	$ 876	- $ 278	- $ 313
30-Day Visible Supply ($ Million)	$3,388	+ $ 532	- $ 411
Total	$4,264	+ $ 254	- $ 724
Corporates:			
Moody's Aa Composite (7/9/92)	8.45%	- .07	- .82
30-Day Visible Supply ($ Million)	$1,725	+ $1,125	+$1,000
Stocks:			
Dow-Jones Averages:			
Industrials	3,330.56	+ .27	+349.79
Transportation	1,303.25	- 21.49	+ 93.80
Utilities	218.64	+ 5.07	+ 20.58
65 Stocks	1,170.36	- 1.70	+109.06
N.Y.S.E. Composite Index	227.88	+ 1.47	+ 19.71
N.Y.S.E. Avg. Daily Vol. for Week (000's)	224,491	+ 13,398	+64,661

*34% Taxable equivalent 9.35%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 7/10/92	Week Ago
Overnight	3.78%	3.44%
1 month	3.44	3.56
3 month	3.44	3.62
6 month	3.50	3.75
1 year	3.88	4.00

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/10/92)	Currency Per U.S. $	Week Ago
Belgium	31.08	31.17
Canada	1.1898	1.1996
France	5.0901	5.0948
Germany	1.5080	1.5134
Italy	1142.02	1147.46
Japan	125.70	124.59
Mexico	3115.75	3122.26
Netherlands	1.7010	1.7064
South Korea	786.10	790.20
Switzerland	1.3633	1.3540
Taiwan	24.25	24.37
U.K.*	1.9083	1.9141

*U.S. $ per U.K. pound

CHEM TRADE-WEIGHTED DOLLAR (7/10/92) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	-0.7%	-18.4%

demographics, Washington got into the act. The Administration proposed a first-time homebuyers' tax credit and Congress failed to deliver; in the midst of this dalliance, potential buyers went to the sidelines and it is now anyone's guess as to the number of purchases deferred during the heart of the make-or-break spring selling season.

Monetary Policy Limits

The inability of Washington to enact even a modest housing tax credit is emblematic of one of the larger obstacles plaguing this recovery. With yawning Federal deficits apparently locked in place, a further fiscal policy spur to the economy, as was so massively deployed following the deep 1981-82 recession, is unlikely. Although the June employment numbers did not seal this recovery's fate and, paradoxically, may have even given it a lift by encouraging the Fed to lower interest rates, and consumer willingness to again purchase automobiles is a clear-cut plus, the absence of any fiscal assist to the economy ensures that undue reliance will continue to be placed on monetary policy. But in today's cautious borrowing-lending environment, the ability of monetary policy to get the economy moving has its limits—and so does the strength of the recovery.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/8/92	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	281.112	+ .496	+20.050
Loans to Depository Inst.	.495	+ .078	+ .162
Float	1.541	+ 1.137	+ 1.053
Total Reserve Bank Credit	314.364	+ 2.577	+17.677
Treasury Deposits with Federal Reserve Banks	6.133	- 2.301	- .949
Currency in Circulation	313.299	+ 3.018	+18.438
Gov't's held for Foreign Acct. by F.R. Banks (End-of-Week)	280.147	+ .777	+38.485
	7/8/92		
Member Bank Reserves:			
Total Reserves Held	49.717	+ .273	- 1.539
Excess (Deficiency)	1.158	- .022	+ .276
Net Free Reserves	.703	- .289	+ .417
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**Year Ago**
M1 (6/29/92)	949.6	+ 5.4	+ 11.0
M2 (6/29/92)	3,448.7	- 1.6	- 1.4
M3 (6/29/92)	4,146.7	- 2.8	- 0.1
Domestic Nonfinancial Debt (1st Q'92)	11,304.3	+ 3.9	+ 4.5

† Seasonally adjusted. * Seasonally adjusted annual rate. ‡ Four-week moving average.

New York Money Market

Offering Rates 7/10/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	3.22%	3.28%	3.46%
* Federal Agencies	3.30	3.42	3.70
* Municipal Notes–High Grade (34% Taxable Equivalent)	3.78	3.94	4.55
Negotiable Time CDs			
Chemical	Rates By Arrangement		
* Secondary Market–Prime	3.40	3.50	3.80

‡ Finance Company Paper–Prime

5- 14 days	3.28%
15- 29 days	3.30
30- 59 days	3.30
60- 89 days	3.33
90-179 days	3.33
180-239 days	3.40
240-270 days	3.40

‡* Bankers' Acceptances

Aug.	3.28%
Sep.	3.28
Oct.	3.29
Nov.	3.30
Dec.	3.32
Jan.	3.37

‡ Industrial Paper–Prime

30- 89 days	3.40%
90-120 days	3.40

†Federal Funds Effective Rate 3.13%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	1st Q'92	$ 5,821	$ 5,740	$ 5,589
Gross Domestic Product (1987 Dollars)*	1st Q'92	$ 4,901	$ 4,868	$ 4,824
Percent Change, Annual Rate	1st Q'92	2.7	0.4	- 2.5
Change in Consumer Prices*	May '92	1.2%	2.4%	2.4%
Change in CHEM Cost of Living Index*	May '92	1.2%	1.2%	2.4%
Change in Producer Prices*	Jun '92n	2.4%	4.8%	- 2.4%
Civilian Employment (Thousands of Persons) †	Jun '92n	117,574	117,656	116,909
Unemployment as % of Civilian Labor Force †	Jun '92n	7.8%	7.5%	6.9%
Personal Income*	May '92	$ 5,008	$ 4,994	$ 4,826
Leading Indicators Composite Index (1967=100) †	May '92n	149.9	149.0r	143.0
Industrial Production Index (1977=100) †	May '92	108.8	108.1	106.4
Net Change in Consumer Installment Credit †	May '92n	- $ 2.41	- $ 3.58r	- $ 1.50
U.S. Merchandise Trade Balance †	Apr '92	- $ 6.97	- $ 5.58	- $ 4.51
Plant and Equipment Expenditures*	3rd Q'92	$ 557.5(a)	$ 558.5(a)	$ 527.9
Private Housing Starts (Thousands of Units)*	May '92	1,230	1,108	983
New Construction Expenditures*	May '92n	$ 423.2	$ 422.4r	$ 399.0
Total Business Inventories †	Apr '92	$ 816.1	$ 815.7	$ 817.9
Total Business Sales †	Apr '92	$ 548.0	$ 548.9	$ 532.8

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

It's a challenge to the competition and a work ethic here at Chemical Banking Corporation.

It pledges: be effective enough to make yourself indispensable to your customer, anticipate trends that benefit your customer, create products and services that are fresh and new.

It says don't take relationships for granted, an important credo because we're first on so many fronts: first in primary relationships with U.S. corporations, first in loan syndication worldwide and first in serving middle market companies, for example.

At Chemical the raw materials of innovation are capital strength combined with intellectual currency.

A recent equity offering—the largest ever for a U.S. commercial bank—added more than $1.5 billion to our already strong capital base. And we intend to continue building it.

Intellectual currency is the intelligence, ingenuity, drive and knowledge our people use to meet clients' financial needs.

We use intellectual currency and capital strength to innovate across all markets and all functions. If you are a customer of ours, or if you become one, hold us to our pledge. We'll help you innovate so you can leave your competition in your wake.

CHEMICAL

INTELLECTUAL CURRENCY. CAPITAL STRENGTH.™

CHEMICAL

Chemical Bank
Bank Window, Church St. Station
New York, N.Y. 10015

First Class
U.S. Postage
PAID
Chemical
Bank

CONGRESSIONAL INFO SERVICE
ATTN: SRI
4520 EAST-WEST HWY
BETESDA,
MD 20814

Financial Digest